



April 27, 2004

To The Honorable Council  
City of Norfolk, Virginia

Dear Lady and Gentlemen:

As Norfolk celebrates the first significant upturn in its population, as cruise ships dock on our downtown waterfront, as new neighborhoods emerge throughout our City, and new businesses arrive and our existing business community continues to grow, we look forward to a new year when Norfolk truly is being Rediscovered: Neighborhoods, Commerce and Culture.

In this time of rediscovery, it is my honor and pleasure to formally submit to you the Proposed Fiscal Year 2005 Operating Budget and Capital Improvement Plan for the City of Norfolk. This document presents a resource allocation plan totaling \$929,140,700 including the following:

General Fund Operating	\$685,638,800
Water Enterprise Fund	\$ 72,415,000
Wastewater Enterprise Fund	\$ 21,212,700
Storm Water Fund	\$ 7,393,000
Parking Fund	\$ 20,965,100
Other Funds	\$ 28,856,000
Annual Capital Improvements	\$ 92,660,100

# ECONOMIC OVERVIEW

Fiscal Year 2004 has been a year of unexpected challenges for our community. We experienced Hurricane Isabel, the worst storm in decades; a budget crisis at the State level; continuing war in Iraq; and an economy improving slower than expected. Despite all of this, Norfolk continues to show its strengths. We continue to reenergize and recreate ourselves in the midst of these challenges.

Norfolk's neighborhoods are enjoying a renaissance and the most dramatic rise in property values in recorded time: 10.5% in neighborhoods overall. From the Southside, to Broad Creek, to Atlantic City, to Ocean View, the spring air is filled with the sound of hammers and saws building and renovating Norfolk – the mid-Atlantic's most dynamic coastal community.

Despite national doldrums, Norfolk's business sector continues to thrive. CMA-CGM, the world's fifth largest steamship line, bypassed Houston and chose Norfolk as its North American headquarters. This decision brings 375 jobs and an \$11.5 million office complex which completes the development of the Lake Wright Office Park at Military Highway. Examples such as this brought Norfolk to national attention this last year as Entrepreneur Magazine called Norfolk "the 4<sup>th</sup> Best Place for entrepreneurs in the South". Investment in the City hit a new high with more than \$750 million of development. This does not include the \$30 million Wal-Mart Superstore which will open in 2006 at Tidewater and East Little Creek Road adding 350 jobs and transforming 40 acres of land into a popular retail destination.

The investment Norfolk has made in economic development is paying off and is providing a crucial counterbalance; keeping the City on course despite the rough seas caused by lagging State, Federal, and interest income.

Property values downtown continue to rise – from \$440 million to \$807 million in a decade. This amounted to \$69 million of growth in the last year alone of which the City gets 1.4% in property tax rates. These numbers have validated the decisions of a generation of Norfolk leaders that if you plan well, demand the best, and work hard, you can create a dynamic 21<sup>st</sup> century City on the banks of the Elizabeth River.

There is much to celebrate in terms of our economic vitality and growth; albeit, numerous other factors beyond the City's control continue to have a negative impact on our financial outlook. These challenges are shared not only by neighboring cities, but by cities across the nation as well as the private sector itself. The cost of utilities and fuel continues to increase. This reality has been shared by any family trying to balance their own personal budget. Additionally, for cities, the cost of meeting State and Federal regulations continues to be a challenge. For years, the Commonwealth of Virginia has failed to appropriate sufficient funds for schools to meet the Standards of Quality that it has set for our children. As a result, cities are forced to use their restricted dollars to help meet these targets, with no revenue raising opportunities allowed by the State to generate these funds.

In addition, our aging infrastructure is in need of significant repair ranging from extensive street paving to storm sewers to waste water and water pipeline. We will continue to need major infusions of money to make these repairs and replacement.

Other uncontrollable costs include the rising cost of health care for which no national solution has yet been reached and the financial hit that retirement investments took in the most recent market downturn.

Our five year outlook continues to reflect challenges for the City, if there is not a sustained recovery in the national economy. Overall, the pace of the growth in

general fund revenues lags behind needed expenditures, causing a lack of sufficient revenues to support our growing base of core services. The Virginia Legislature's refusal to allow cities additional revenue generation authority compounds this situation. As we continue to add to our tax base with new development it helps to mitigate the deficit. And, without question, the City must continue to work smartly to continue to function in the most cost-effective manner possible.

The City of Norfolk can prosper and move forward as long as a pragmatic view is taken. I propose a balanced budget that does not call for increasing the burden on Norfolk residential and business property owners. In preparing this budget, the City's goals and objectives continued to be the cornerstone of my recommendations:

- To continue building and maintaining strong neighborhoods;
- To protect and nurture our young people through support for healthy families, education, recreation and libraries;
- To continue to achieve a safe and clean City of Norfolk; and
- To make investments that promote growth and financial capacity.

## **REVENUE OVERVIEW**

Norfolk suffers from a fiscal structural imbalance that constrains our ability to fund all of the desired services. This imbalance stems from a number of factors:

- Much of our revenue comes from the State or Federal government with strings attached dictating how we spend the money.
- We are limited in what other cities have in general property tax revenue because nearly 40% of our land is tax exempt based on Federal, State and non-profit ownership.

- The State of Virginia strictly restricts local government's ability to initiate revenue generating initiatives without its permission.
- Costs are set for personnel; equipment maintenance, repair, replacement; debt; health care; retirement; and costs associated with Federal and State regulations.

Despite these limitations, we have proposed a balanced budget that does not increase property tax and minimizes other tax and fee increases.

## **MAJOR CITY REVENUE CATEGORIES**

For the 8th consecutive year, it is recommended that Norfolk keep the real estate tax at \$1.40 per \$100 of assessed value.

Assessments grew last year to the highest level in 15 years. Caused by a soaring demand for housing, as mentioned earlier, the assessed values on homes increased 10.5 percent overall in 2004. It appears that almost every neighborhood, home and business has grown in value. As a result, total general property taxes are expected to yield \$189,760,400, which is \$13.9 million more than the current fiscal year.

We are projecting a 13.7 percent increase in revenue generated from the hotel tax, fueled by business travelers and a tourism industry that is outperforming many regions of the country. This fund is projected to generate approximately \$6,370,000 in FY 2005.

The sales and use tax is also expected to grow by 7.4 percent generating approximately \$27,900,000, which is \$1,900,000 more in revenue for the next year. Also projected to increase, but at a slower rate, are telecomm and restaurant tax revenues.

## **STATE REVENUES FOR 2005**

It is unsettling to admit that it is completely unclear what impacts the State Budget will ultimately have on the City of Norfolk when it is finally adopted by the General Assembly. A major issue for the City in developing this budget was the lack of action by the General Assembly to adopt the State's budget. Without final numbers, it has been somewhat of a guessing game as to whether or not the City's budget will remain in balance. At this time, as the FY2005 Proposed Budget is printed, the City still does not have any forecast as to when a state budget will be adopted. Consequently, certain assumptions have been made to develop our financial plan. Cornerstone to these assumptions is the premise that the City will not suffer further financial cuts from the State despite House budget proposals that originally suggested such action. The City budget has been constructed by taking the Governor's Proposed Budget as the basis of developing the budget.

The proposed budget assumes level funding for the Constitutional Officers, as reflected in both the Governor and Senate versions of the budget. However, if the House version is approved, there will be cuts to those offices. If these reductions are enacted by the State, the City will not have the financial capacity to backfill the loss of State funds and appropriate reductions will need to be made.

In the case of Norfolk Public Schools, we are optimistic that the final version of the State budget will provide for some level of augmentation beyond last year's budget.

## **CHARGES FOR SERVICES**

To offset the costs of providing services to residents for FY2005, a limited increase in particular fees are proposed.

In order to continue to maintain and improve our City's emergency response systems, it is proposed that the emergency 911 tax be raised 10 cents per line from \$2.85 a month to \$2.95 a month. This is estimated to raise approximately \$125,000. These revenues will go to cover rising cost in the emergency communications operations. It should be noted that there is currently a State imposed cap of \$3.00. Therefore, as increases in the cost of providing 911 services occur in the future, these costs will have to be covered by the City's general operating budget.

In April 2004, the City launched "The Big Easy Recycle Rollout" which begins the citywide replacement of the 18 gallon recycling containers with new 95 gallon curbside pickup. In order to fund this important program to reduce our landfill costs and support the environment, a rate increase of \$1.50 per month is proposed. This will result in the average homeowner paying \$10.75 instead of \$9.25 a month for refuse disposal. The City estimates this will raise an additional \$973,000 to meet the costs of waste disposal. It should be noted that in 2001, the City Council actually authorized maximum refuse collection and disposal fees of \$10.61. The City has tried to delay increasing the fees for as long as we could, but can no longer do so.

## **OTHER BALANCING ACTIONS**

With only the increased revenues from fee adjustments mentioned above, it is obvious the budget could not be balanced. Therefore, aggressive cost control methods are being employed. A number of one time measures are proposed to be taken to generate revenues to close the budget gap. These actions will not

assist in solving any reoccurring budget imbalance in years to come, but it is anticipated that other more permanent economic factors and cost containment measures will come into play by then.

The one time actions proposed in FY2005 include:

- Property adjacent to Lake Lawson will be sold for \$1.4 million and proceeds will be returned to the General Fund.
- We are projecting a carryover of approximately \$9.17 million from the 2004 fiscal year that will rollover to be spent in FY2005.
- The Parking Fund is being charged interest on the funds loaned to it when the parking fund was first established. It was identified that the Parking Fund while paying the General Fund back for this loan, was not paying interest. It is proposed that the past and current interest be collected, along with the last payment of the loan. This amounts in total to \$817,000.
- A centrally monitored Hiring and Procurement Slow-Down Plan is proposed for at least the first six months of the year in order to generate approximately \$3.2 million in savings. Only public safety and revenue generating positions will be held harmless from the hiring hiatus.
- Costs for Public Works Design Staff services have been transferred to the Capital Budget for a General Fund savings of \$1.135 million. While in-house staff provides preliminary design and project management for all capital projects, the charges for these services in the past have been absorbed by the General Fund. It is appropriate for these to be charged against the capital projects for which the work is done. To transition to this approach only projects valued at \$500,000 or above will be charged.
- Departmental reductions totaling \$1.732 million are proposed. These reductions should not result in any noticeable service level changes, although it will seriously stress the staff and the organization.



Reductions and redistribution of funds is never popular or readily sought out. Yet we are an organization that will do what we have to and will maintain our high expectations and delivery of quality services.

## **EXPENDITURE OVERVIEW**

### **PUBLIC EDUCATION: A COMMITMENT TO EXCELLENCE**

Norfolk has continually stretched its budget to meet the needs of public education because it recognizes that quality education is essential to the strength of its neighborhoods and its vitality as a city. This must be done within available revenues and in balance with other critical community needs.

Many of our public buildings, especially our 59 educational facilities, are over 50 years old and require frequent and costly upkeep. Yet, the General Assembly has consistently failed in its obligation to equitably fund public education, especially capital needs. This burden has fallen to Virginia's cities whose limited local tax base must provide for the renovation, upgrading and replacement for school facilities. In Norfolk, the cost of these needs has more than quadrupled in the last 15 years.

This year, the FY2005 Proposed Budget provides a local contribution to schools of \$92,420,000. This is \$2,450,600 more than in FY2004. The School Board's Proposed Budget requests a 5% increase, however we are unable to stretch to meet that request this year.

In discussing the proposed increase of \$2,450,600 with NPS officials, it is believed that a 3% increase to teacher salaries can be achieved. With additional State funds, it is hoped the result will be that more financial latitude will be afforded to the Schools.

The City's base budget also continues to provide millions of additional dollars for services such as school nurses, maintenance of school play equipment and grounds, and athletic fields.

The Proposed Capital Budget provides \$2,689,000 for completion of the Norview High School. This state-of-the-art educational facility will open its doors to students in fall FY2004.

Also, included is an additional \$2,700,000 for construction of an athletic field to serve both Granby and Maury High Schools from its Powhatan Avenue location, adjacent to the new Lambert's Point Golf Course.

## **HIGHER EDUCATION**

The FY2005 Proposed Budget continues to support the ambitious plans of our institutions of higher education. These plans are being funded through unique partnerships with the private sector, the State and the City. They are transforming neighborhoods and bringing new jobs and recognition to Norfolk.

Ground has been cleared and City-owned property sold for the first phase of Norfolk State University's RISE Center located across Brambleton Avenue from the main campus. When complete, this 140,000 square foot \$18 million dollar facility will house a research laboratory, business incubator, offices and classrooms as well as space for workforce development and training. As Norfolk State finalizes its plans, the FY 2006 Proposed Capital Budget will include \$500,000 to further support the RISE Center, an important economic asset.

The City also continues to fund infrastructure improvements in the neighborhoods surrounding Old Dominion University's Academic Village. With

the completion of the first phase, 378 dormitory units and the first retail businesses opened. Design guidelines for a hotel and three office buildings are underway. The next to the last payment of \$1,595,000 of the commitment to over \$15,000,000 of public infrastructure continues in the Proposed Capital Budget.

## **HOUSING, HEALTH and HUMAN SERVICES**

Come Home to Norfolk Now echoes the City's commitment to offering healthy and appropriate housing and quality of life to all of our residents.

### **Office on Homelessness**

Based on the recommendations of the Mayor's Homelessness Advisory Committee, the City Council has committed to ending homelessness in 10 years. Towards that end, an Office on Homelessness is being established in the City Manager's Office to guide the development of an implementation plan towards this objective.

A budget of \$191,800 has been developed for the first year of this initiative. The funding will provide for staff and operating expenses for the office. Actual resources for the homeless will be identified in existing City programs in the Departments of Human Services, NRHA and the Community Services Board.

### **Neighborhood Preservation**

In residential development, as in all things at all times, Norfolk aspires to excellence. With the publication of the nation's first citywide Pattern Book, which is garnering attention around the world, Norfolk is back in the spotlight for planning, innovation and execution of ambitious and superior residential design. The City will continue in Fiscal Year 2005 to aggressively provide a host of

services to enable residents to improve the quality of their respective neighborhood environments. This will include funding for the continued operation of the Ocean View Building Permits Office as well as other initiatives launched in 2004.

### **HOMEARAMA and East Ocean View**

Norfolk has been rediscovered by the Tidewater Builders Association which for the very first time will host its regional showcase HOMEARAMA at its East Ocean View neighborhood-to-be, East Beach. HOMEARAMA typically attracts over 100,000 visitors and given this year's distinctive nature expects to attract tens of thousands more. In April, the vendor tent was already sold out reflecting the extraordinary level of enthusiasm for this Norfolk first. Responding to this wonderful opportunity, Norfolk staff, residents and businesses are rallying to ready our City and support the event. The FY2005 Proposed Budget recommends the City, uniquely in the region, provide \$50,000 to help with additional amenities and sprucing up of entries and travel routes to the event.

This fall, Norfolk will awaken the region to the freshest urban community along the Eastern seaboard with the first 17 of over 900 forecasted East Beach homes. As Hampton Roads first Traditional Neighborhood Design-style development, East Beach will attract national attention – attention we will expand to our entire community. Lots that just 10 years ago could be purchased for \$10,000 to \$90,000 (bay front) now command \$70,000 to \$400,000 and more.

While initial returns will be turned back into completion of the East Beach infrastructure, within a decade, the City will have grown an entirely new revenue engine that will continue to fuel redevelopment and improvements elsewhere in the City.

## **Beach Replenishment/Dredging**

Norfolk is surrounded by miles and miles of coastline on the Chesapeake Bay, the Lafayette and Elizabeth Rivers, offering a vast array of residential and recreational opportunities. These opportunities can only be secured with the protection of the waterways and waterfronts.

Hurricane Isabel both showed the importance of stabilizing our beachfronts and complicated our efforts to do so. To date, the Federal Emergency Management Agency has not reimbursed the City for nearly \$9 million in recovery costs, which is preventing us from moving forward as quickly as we had planned on the Pretlow Anchor Branch Library, as explained later.

Included in the Capital Budget is an additional \$3,300,000 for the beach erosion control program including sand replenishment, breakwater construction and participation in the Corps of Engineer's reconnaissance study. We will continue to work energetically with our congressional representatives to secure additional federal funds for erosion control and protection of our waterfront amenities and properties.

The Proposed Capital Budget contains \$500,000 for dredging. \$300,000 of this is proposed to complete the major channel dredging in Pretty Lake. The remainder of the funds budgeted is to begin to address other areas of the City by providing partnerships between the City and private property owners along Broad Creek, Chesapeake Heights, Crab and Tanners Creek and other areas of the City.

## **Fort Norfolk**

Norfolk, like all of America, is feeling the stirrings of the aging baby boom generation. Currently underway is a public-private partnership that will give our active seniors housing options that meet their desires. The Continuing Care Retirement Community (CCRC) will serve as the first significant private development in the Fort Norfolk area. This project will provide the cornerstone for a new neighborhood, transforming this strategic extension of downtown into a world-class, mixed-use community. To aid in this endeavor, \$250,000 is budgeted in the Capital Budget to continue the City's commitment to the partnership with road improvements on Colley Avenue.

## **NEIGHBORHOOD PLANNING INITIATIVE**

The Neighborhood Planning Initiative is an integral part of the Come Home to Norfolk Now Housing Initiative. Through a community engagement process, and using resources such as the new Design Center, we develop goals and strategies to take a neighborhood from where it is to where it wants to be in terms of its quality of life. These plans assist the City to determine how best to spend its resources in support of neighborhoods. The following four plans, Broad Creek Renaissance, Fairmount Park, Greater Wards Corner, and Southside are currently being developed.

## **Broad Creek Renaissance/Hope VI**

The excitement continues to build among residents, realtors and prospective homeowners as the first homes near completion along Ballentine Boulevard.

In addition to the planned expenditure of Hope VI funds under the auspices of NRHA, the City's FY05 Proposed Capital Budget contains \$1,250,000 in City funds for improvements in the surrounding Broad Creek area. \$900,000 of these

funds will complete the acquisition of the waste transfer station in Douglas Park. This acquisition will make a significant difference in the land use in that area and hopefully spur quality private development. The City is developing a comprehensive plan to guide overall development with the active support of community leaders and residents in the surrounding neighborhoods. Broad Creek has the potential to set a new standard for high-quality urban neighborhoods that meets the needs of a diverse population of residents of all ages and interests.

The completed Broad Creek will include not only housing for all income ranges, but a new anchor library, a new YMCA, and an environment conducive to quiet walks and lively recreational activities in the heart of the City.

### **Fairmount Park**

As anyone who drives up Lafayette Boulevard can tell, big changes are underway in the Fairmont Park neighborhood. While the neighborhood plan nears completion, the City is making a significant investment in major infrastructure improvements, including roads and sewers. Major sewer and street work will continue. Also \$250,000 is funded in the Capital Budget to continue implementation of the Plan.

### **Greater Wards Corner**

Wards Corner is a vibrant retail center that has served the Norfolk community for more than 50 years. Ready for a new lease on life and eager to embrace the entire area it now encompasses, Wards Corner is in the midst of a comprehensive planning process.

Of noteworthiness is the recent agreement to acquire the Jewish Community Center. This will provide the City with an excellent opportunity to obtain a facility

that is ready for use without the cost of new construction. The Proposed Capital Budget includes an initial payment of \$900,000 for purchase of this facility, which contains 16 acres of pools, gymnasiums and open space near Wards Corner. During the next several months, City staff will be drawing up a recommended plan for the services to be provided through the Center when we acquire it late fall. Operating funds have been placed in the Operating Budget for the operations.

### **Southside Master Plan**

The Southside neighborhoods set to work two and one half years ago on a comprehensive strategic plan to revitalize the neighborhoods. The Southside Coalition and the Southside Task Force have been instrumental in helping the City to develop what is now the final draft document on its way to City Council Committees and eventually the Planning Commission and City Council. The FY2005 proposed budget includes \$250,000 to support rehabilitation and new construction of single family homes in these areas, two of which – Berkley and Campostella Heights – also are eligible for and will receive conservation funding through NRHA. Funding continues to remain in place for the Berkley Shopping Center. While the City maintains funds and has seized every opportunity, to our disappointment a grocery store partner has yet to successfully step up to the plate. Additional funding in the amount of \$128,000 has been recommended for the Southside – Campostella Heights – education resource center, the last of four established there..

### **Neighborhood Conservation**

The FY2005 Proposed Capital Budget includes \$4,000,000 for neighborhood conservation, which is administered by the Norfolk Redevelopment and Housing Authority. While the City normally allows the NRHA discretion in determining priorities and how the money will be spent, we have requested a comprehensive



breakdown of unspent funds and a plan for how those and the new funds will be spent. This should be forthcoming and available for the City Council's review and deliberations during the work session on the proposed budget.

### **Economic Development**

Once again \$500,000 is provided to support improvement of the commercial corridors. The effects of the City's investment in this program are becoming noticeable. Of the \$500,000, it is recommended that \$50,000 be spent on planning and design work for the 1<sup>st</sup> View Commercial Area.

Also proposed is \$174,000 for a Military Highway Corridor Planning Study to develop strategies based on market viability, traffic, and other factors. This comprehensive approach will create a land use and zoning development plan and criteria the City may use both to encourage and to evaluate private sector projects.

### **Streets**

Using urban allocation monies received from the State, the Proposed Capital Budget contains \$1,858,000 for the placement of sound walls in Commodore Park and Fairlawn, as well as \$500,000 funding for neighborhood streets and sidewalk improvements, and \$100,000 for street lighting improvements. Additionally, funds have been proposed for the 4<sup>th</sup> View intersection in Willoughby, replacement of the Brambleton Avenue bridge over the Hague, installation of an additional turn lane on Virginia Beach Boulevard at Newtown Road, and the extension of 43<sup>rd</sup> to Powhatan.

## **ARTS, CULTURE & RECREATION**

The Arts call Norfolk home, and rightly so. We should continue to strive to be the “Cultural Capital” of Virginia, both as an extremely effective revenue generator and – even more important – because of the richness of experience and inspiration it affords our residents, especially our young people.

### **The Botanical Garden**

The proposed budget provides for \$800,000 as the City’s match to private fundraising to create a Children’s Garden at the Botanical Garden. Once completed, it is expected to be one of the largest on the East Coast.

### **The Zoo**

The Zoo is deep into reworking its Master Plan with exciting new developments soon to be announced. The Zoo remains near the top of the region’s most popular attractions, with its new Africa exhibit, entrance-way and education building receiving overwhelming response. The FY2005 Proposed Budget provides planning money for the design of the new animal hospital to be funded and built at the Zoo in FY2006. The hospital will maintain our full accreditation and will equip us to continue to provide state-of-the-art care to our animals.

### **The Chrysler Museum of Art**

\$1 million is included as part of the City’s match for the Chrysler Museum of Arts \$40 million Campaign for the Future. This campaign is designed to assist in stabilizing the overall endowment needed to maintain the museum’s operation on an on going basis and has received a warm response by matching private donations.

### **Public Arts Commission**

The City Council is determined to do more to foster art and culture all across the city and, in this regard, soon will be forming a Public Arts Commission. The Commission will be charged with formulating a program and funding strategy for the development of public art projects that reflect the diversity of the community. Existing funds will be reallocated to support this effort.

### **Crispus Attucks Cultural Center**

Funding is included to operate the Crispus Attucks Cultural Center when it opens in August. Thanks to a unique partnership among the Crispus Attucks Cultural Center, Inc., the City of Norfolk and the Norfolk Redevelopment and Housing Authority (NRHA), this icon of African American heritage is being restored to the community and will serve as a beacon for the enjoyment and development of entertainment and entertainers in music, theatre, dance and fine arts for generations to come. \$400,000 is budgeted to open, operate and maintain this facility.

The Capital Budget also provides \$1 million in new funds from the public amenities fund which will be added to existing funding to initiate \$2.5 million improvements to SCOPE based on recommendations recently received from the engineering consultants. The specifics of these improvements are expected to be a new sound system, lighting and rigging that modern attractions demand.

The public amenities fund also will make important improvements to Chrysler Hall, including lighting controls for \$125,000 and \$125,000 for the sound system so that we can continue to host Broadway productions.

## **Libraries**

We are committed to moving forward on the long-range plan for anchor branch libraries. The FY2005 Capital Budget includes \$1,115,000 for the new branch library in Ocean View. This appropriation brings the account balance for construction of the Pretlow Anchor Branch to \$8 million, which is the funding level that was authorized by City Council in 2001.

While the funding obligation has been met, there are three issues that could delay this project. First, the devastating impacts of Hurricane Isabel on the community resulted in the decision to use \$3.2 million of the Pretlow funds for emergency sand replenishment and, as mentioned elsewhere, FEMA has yet to reimburse those costs. Replacement of these funds is needed before the project can proceed.

Second, it has been recommended and Council may decide it desirable to increase the size of the Pretlow Anchor Branch from 25,000 square feet to 30,000 square feet. Design changes and inflation could increase cost by \$2.1 million more than originally authorized by City Council.

Third, funding has yet to be authorized for furniture, fixtures and equipment and will need to be requested in FY2006. We also plan to work with the Library Foundation to fundraise and secure grants for furniture, fixtures and equipment.

## **Parks and Recreation Facilities**

The Proposed Capital Budget also includes \$3 million to begin construction of Lamberts Point Golf Course, a nine-hole riverside course and driving range that will bring a spectacular new amenity to the community. Design work is budgeted to begin the Lambert's Point Community Center project as well.

Plum Point Park, a \$1.3 million mitigation project by the Virginia Port Authority, will add six acres of public green space along the Elizabeth River in Fort Norfolk. This budget provides for the necessary plantings and maintenance for this park.

## **PUBLIC SAFETY**

### **Police**

The Proposed Capital Budget includes \$3,000,000 for design and construction of an interim Police Second Precinct facility to make the Wal-Mart Super Store site available. Meanwhile, we are exploring the possibility of using the former TWA building to house the Second precinct, during construction.

Other facility needs addressed in this budget include \$225,000 for repairs to the Norfolk Police Department Firearms Training Facility on Miller Store Road. This will allow our officers to return to their firearms training without having to commute to the Blackhawk facility.

Most recently, the City Council heard concerns raised by School Crossing Guards as to their compensation. The Administration agreed to conduct a market analysis to review this concern. The Proposed Budget recommends a modified salary range for the School Crossing Guards. While starting salaries for School Crossing Guards are competitive and will not be adjusted, we do want to recognize those who continue to serve our children with the following adjustment in salaries:

- Increases from \$10.05 to \$10.50 per hour for guards with 1 year of service;
- Increases an individual's salary to \$11.85 per hour at 5 years of service;
- Increases an individual's salary to \$13.20 per hour at 10 years of service;
- Increases an individual's salary at 15 years to \$14.55 per hour.

## **Fire-Rescue**

We have studied the response times and the demographics in the Southeastern section of the City and there is a need for augmentation. At an additional cost of approximately \$348,500, the Proposed Budget provides for the establishment of a new medic unit at Station #4 at Poplar Halls to serve the entire southwestern section of the City, which soon will include the new St. Mary's Home for Infants and Children. Five paramedics and four shock trauma responders comprise the new medic unit.

Also under study has been the nature and disposition of calls for service citywide. One of the biggest challenges facing cities is the strain on our resources by the growing number of residents who use emergency medical services for non-emergency situations. Emergency service calls represent over 80% of the calls for service received annually by Fire-Rescue. The continued complications of health insurance, hospital overcrowding and federal Medicaid/Medicare restrictions also pose challenges that complicate the emergency health care services arena. One of the Department's major initiatives in the next year will be to work with medical facilities throughout the City to educate and to encourage residents to use emergency services appropriately.

Funding also is included to provide emergency generators for all fire stations.

## **Office of Emergency Preparedness and Response**

As security and emergency preparedness become increasingly complex, Norfolk has decided to consolidate these functions in the Office of Emergency Preparedness and Response. This consolidation will allow us to upgrade technology and protocols to address all potential hazards. The Office will handle all 911 and non-emergency calls for service, preparations for an effective response to natural, technological or human-caused disasters, and oversight of

the security program for City departments and agencies. This year, the Office will concentrate on upgrading radio, telephone, call management and computer aided dispatch. We will also be seeking funds from the Virginia Department of Homeland Security to purchase equipment needed to prepare, mitigate, respond and recover from any hazard that may impact the City's operations.

### **Commonwealth Attorney**

Thanks to federal funding of the Safe Neighborhoods Program, four attorneys in the Commonwealth's Attorney Office have had the resources to step up prosecution of a variety of quality of life crimes, including prostitution and drug sales.

### **Sheriff**

The Sheriff requested a 5% salary increase for deputies and offered some suggestions as to how we might be able to generate sufficient revenues to do so. While not all the suggestions were viable, the City should provide a salary adjustment to address labor market competitiveness. Based on recent salary surveys of surrounding jurisdictions, the Proposed Budget recommends a 1.5 percent salary adjustment in addition to the proposed General Wage Increase (GWI) and step increases recommended for other employees. This adjustment will allow the Sheriff's Office to be more competitive with others in the region and reduce the turnover rate of staff.

### **Courts**

The Proposed Capital Budget contains \$750,000 for design of the new court complex project. It is clear that the current facilities have long exceeded their normal life span and are not able to meet their caseload needs. This long-needed major project will be funded over the next five years.

## **Norfolk Cruise Terminal**

This year the number of port calls has doubled to 60, and will bring more than 111,000 passengers and 37,000 crew members to town. Holland America and Celebrity Cruises plan to homeport ships here in 2004, thus making us a year around cruise port, attracting leisure travelers from throughout the Eastern seaboard.

The Proposed Capital Budget contains \$8.5 million toward construction of a permanent Norfolk Cruise Terminal, as well as related infrastructure improvements. When completed in 2006, the terminal will represent a \$36 million investment that will encourage growth in Norfolk's cruise business, meet Homeland Security requirements and provide needed additional space for special events. The major funding for the construction will commence in FY2006. Currently, we are showing \$21 million of this construction cost in FY2006 which will constrain other capital projects. We are continually looking for non-City sources of funding for the cruise terminal. Norfolk's cruise business is expected to generate nearly \$3.8 million a year in revenue by FY07.

## **EMPLOYEE SALARY AND BENEFIT ADJUSTMENTS**

Before, during, and after Hurricane Isabel, the unselfish dedication of Norfolk workers won praise from City Council, residents, business owners, and from the media who chronicled our recovery programs and initiatives from near and afar. We were again reminded, that our plans are only as strong as the people tasked to implement them – and in Norfolk, we have some of the best.

I am proposing to fund a 1.5% General Wage Increase (GWI) for all employees, and 2.5 percent step increases for eligible employees on their anniversary date.



Unfortunately, funding constraints require that the GWI be delayed and implemented effective January 1, 2005, which is mid-fiscal year.

To encourage employees to save for their future by hedging against inflation and, moreover, in recognition of the delay of the GWI, it is recommended that the City purchase and provide each permanent full-time employee with a \$100 face value “I” Bond, issued by the U.S. Treasury. “I” Bonds are a new type bond designed to earn a guaranteed rate of return – they grow in value with inflation-indexed earnings.

Health insurance costs continue to increase at a rate of 4.5%, despite our renewed emphasis on wellness and disease prevention. In each of the past two years, the City and employees have shared the increases in premiums – with the City paying approximately two-thirds and employees one-third of the increase.

I am recommending that the City fund all of the \$1,650,000 of premium increases. We will continue to work with employees on reducing the use of medical services through adoption of a healthy lifestyle and disease management. However, to remain competitive, we must offer affordable health insurance and, therefore, absorbing the premium increases will help in this regard.

### **Retirees**

In the face of national trends to do away with defined-benefit plans, the City of Norfolk continues to offer a single, employer-defined benefit pension plan for its employees. The plan is administered by the Department of Finance and managed by a Board of Trustees. Benefit determinations are a policy matter and are made by City Council.

The pension system is a well-managed system; however, along with virtually every other system in the nation, it experienced staggering losses in the period between the end of the 1990s and 2003. While we now see investment returns trending upwards, we will not recoup our losses until sometime in the future and will need to increase the City's contribution to the retirement system by \$5,550,000 in FY05. In addition, understanding the stresses of our retirees living on a fixed income, I am recommending a 1 percent cost of living increase for retirees.

### **Public Safety Retirement Reconciliation**

For several years employees in the public safety plan have expressed concern regarding changes previously made to the retirement plan as it relates to the 65% cap. While these changes were made with the full knowledge of the employees, the perception of unfairness has remained and been expressed by some of the employees. Perception is important. Therefore, I recommend a program that has a sixty day window for application to be instituted wherein sworn Police and Fire employees, eligible for normal service retirement and a minimum of 55 years of age would receive a defined payment at the start of each year for the next three years, if they retire during this limited retirement window. The details of the program are still under development, however within available compensation funds, money is incorporated to offer this incentive. Once this program to reconcile retirement issues is ended, the City shall consider the matter of the cap permanently resolved. More details will be provided to City Council in a Budget Briefing paper.

## ENTERPRISE FUNDS

### **Water Fund**

The FY2005 Water Fund proposed operating budget is \$72,415,000, a \$762,007 increase from the FY2004 approved budget. The proposed budget recommends a 25 cent per hundred cubic foot rate adjustment. The rate adjustment reflects a plan adopted by the Council in 2003 to upgrade neighborhood infrastructure, a \$340 million water and wastewater 10-year capital improvement program.

### **Wastewater Fund**

The FY2005 Wastewater Fund proposed operating budget is \$21,212,700, a \$1.9 million increase from the FY2004 approved budget. The proposal includes a 30 cent per hundred cubic foot rate adjustment. The existing and anticipated Consent Order with the Department of Environmental Quality and increases in retirement contributions and health insurance are factors in the recommended rate increase. These funds also will permit permanently assigned night and weekend crews in the Wastewater Division to improve response quality.

### **Utility Bill-Paying Assistance Programs**

Financial assistance programs are available to Norfolk utility customers in need. Norfolk's Lifeline Program, managed by the Departments of Utilities and Human Services, provides eligible individuals with up to \$270 in water bill financial assistance and up to \$500 in plumbing repair financial assistance. Through Lifeline, in FY2004 more than 2,025 families received a total of \$500,000. In FY2005 it is anticipated that another \$500,000 will be distributed to those in extreme need.

## **Storm Water Management**

The proposed budget for the Environmental Storm Water Utility Fund is \$7,393,000. Hurricane Isabel demonstrated the progress the City has made improving storm water management to minimize flooding and to protect our waterways. Areas of the City that formerly suffered sustained flooding due to blockages, or pump failure, weathered Isabel with far greater ease.

## **CONCLUSION**

I believe we are entering a prophetic time in Norfolk's history. For years, we have concentrated our efforts on building the kind of city people would want to live and work in. The kind of city people would visit, tell their friends about, and come back to visit. The kind of city we could all say – with pride – 'I'm from Norfolk.'

We've had that city for some time now, but it has been our secret. This is changing. From across the region, across the state and across the country, the charms of Norfolk are being rediscovered – its neighborhoods, strong cultural attractions, and growing business community – and its sterling future is becoming evident in the enthusiasm with which Norfolk increasingly is being embraced.

Increasingly we are seeing the private sector step up to the plate – from businesses relocating or expanding, to builders, to homeowners seeking to rejuvenate their property or their neighborhoods. The City is stepping back to concentrate on essential services.

We are seeing our population grow for the first time in years as new housing comes on line and demand is increasing. We are also adding jobs as companies move into Norfolk or expand. Investment in the city reached new levels last year, recording more than \$750 million dollars of development. Our economy and

tourism continues to outperform many similar cities in the country. Norfolk is increasingly recognized as a place to be – for businesses and residents.

This year, as HOMEARAMA comes to Norfolk, as new neighborhoods take shape from Broad Creek to East Beach, as private development revitalizes neighborhoods and business centers across the City, as our universities and hospitals move forward with exciting new expansions, as thousands of cruise passengers and visitors check out the new Norfolk – they will rediscover Norfolk's neighborhoods, culture and commerce. As the energy and vitality we have already experienced will continue to grow – it will be our continuing task to ensure the greatest beneficiaries are the residents who have, for so long, held to the vision of their great city. While a difficult fiscal year lies ahead, the Proposed FY2005 Budget should serve us well, and I commend the Proposed Budget to you for review and deliberation.

Sincerely,

A handwritten signature in black ink, appearing to read "Regina V. K. Williams". The signature is fluid and cursive, with the first name "Regina" being the most prominent.

Regina V. K. Williams

City Manager

